

**INDEPENDENCE LIGHT AND POWER,
TELECOMMUNICATIONS
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2011 AND 2010**

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INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

Officials

Board of Trustees

Brian Meyer
Bryan Palmer
Bob Cook
Gerald Stelter
Cyndi Bergeson

Chairperson
Vice Chairperson
Secretary-Treasurer
Trustee
Trustee

Utility Officials

Darrel Wenzel
Ronald Curry
Kevin Sidles
Linda Kress
William Runge

General Manager
Assistant General Manager
Line Superintendent
Office Manager
Telecommunications-Superintendent

City Council

Carl Scharff
Jon Holland
Bonita Davis
Arletta Schweitzer
Jeanne Hermsen
Dennis Vaughn
Bob Hill
Richard Engen

Mayor
Council Member
Council Member
Council Member
Council Member
Council Member
Council Member
Council Member

City Officials

Barbara Rundle
Carter Stevens

City Clerk
City Attorney

Alan W. Flick, C.P.A.
Gina E. Trimble, C.P.A.

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Independent Auditor's Report

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

We have audited the accompanying financial statements of the business type activities of Independence Light and Power, Telecommunications (a municipal utility), a component unit of the City of Independence, Iowa, as of and for the years ended December 31, 2011 and 2010 which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of Independence Light and Power, Telecommunications' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Independence Light and Power, Telecommunications at December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2012 on our consideration of Independence Light and Power, Telecommunications' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, and the Budgetary Comparison Information on pages 6 through 16 and 33 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Light and Power, Telecommunications' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended December 31, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



RIDIHALGH, FUELLING, SNITKER, WEBER, & CO. P.C., C.P.A.'S

August 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Independence Light and Power, Telecommunications (the Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2011. The Independence Light and Power, Telecommunications provides electrical, cable, internet, and telephone services to the citizens of the City of Independence (the City) and is a component unit of the City. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Revenues of the Utility for 2011 were \$11,025,285. This is an increase over revenues in 2010 of 5%.
- Disbursements for 2011 totaled \$10,215,513. This is an decrease of approximately .6% from 2010.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis – This introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Basic Financial Statements – These consist of the Statement of Net Assets, Statement of Revenues and Expenses and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. The previous mentioned financial statements provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplemental Information – This provides additional information about the Utility's financial activities in addition to the basic financial statements.

BASIS OF ACCOUNTING

The Utility maintains its financial records on the accrual basis of accounting which is in conformity with U.S. generally accepted accounting principals. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

FINANCIAL ANALYSIS OF THE UTILITY

Net Assets may serve over time as a useful indicator of financial position. The Utility's Net Assets, including a prior period adjustment, increased by \$809,772 from 2010 to 2011.

Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets	\$ 3,393,653	2,560,976
Capital Assets:		
Capital Assets	25,289,298	24,775,371
Less: Accumulated depreciation	(14,713,881)	(13,783,742)
Total Capital Assets	10,575,417	10,991,629
Board Designated Funds	4,533,306	4,527,863
Other Assets	<u>460,298</u>	<u>500,047</u>

Total Assets	<u>\$ 18,962,674</u>	<u>18,580,515</u>
Liabilities		
Current Liabilities	\$ 2,148,424	1,916,521
Other Liabilities:		
Accrued retirement insurance	482,726	526,232
Note payable – BankIowa	-	90,210
Note Payable – USDA Revolving Loan Fund	300,000	300,000
Electric revenue project note payable	3,755,648	4,136,993
Less: Current portion of long-term debt	(496,571)	(352,116)
Total Other Liabilities	<u>4,041,803</u>	<u>4,701,319</u>
Total Liabilities	6,190,227	6,617,840
Net Assets	<u>12,772,447</u>	<u>11,962,675</u>
Total Liabilities and Net Assets	<u>\$ 18,962,674</u>	<u>18,580,515</u>

Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Revenues:		
Sales to Customers	\$10,808,892	10,294,551
Miscellaneous Operating Revenue	118,918	96,935
Interest Income	62,787	69,174
Miscellaneous Revenue	34,688	27,365
Gain on Disposal of Assets	-	8,825
Total Revenue	<u>11,025,285</u>	<u>10,496,850</u>
Expenses:		
Generation Expenses	5,582,862	5,532,523
Distribution Expenses	371,924	398,701
Customer Accounts Expense	124,395	127,890
Administration and General Expense	849,157	1,127,077
Cable and Internet Expenses	1,738,789	1,643,184
Depreciation and Amortization	934,566	919,754
Benefits to Community and City	457,580	337,751
Interest Expense	153,250	193,921
Loss on Disposal of Assets	2,990	-
Total Expenses	<u>10,215,513</u>	<u>10,280,801</u>
Changes in Net Assets	809,772	216,049
Net Assets at Beginning of Year	<u>11,962,675</u>	<u>11,746,626</u>
Prior period adjustment	-	-
Net Assets at End of Year	<u>\$ 12,772,447</u>	<u>11,962,675</u>

BUDGETARY HIGHLIGHTS

The Utility prepared and adopted the annual budget on December 6, 2010, which designated the amounts necessary for the improvement and maintenance of the Utility. The Utility did not exceed its budgeted expenditures for the year ended December 31, 2011.

DEBT ADMINISTRATION

At December 31, 2011, the Utility had long-term debt in the amount of \$3,755,648. During 2011, the Utility repaid \$471,555 of long-term debt.

BACKGROUND OF INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

In 1893, the citizens of Independence voted by a 572 majority to build a municipal light plant. This building was located where Veterans Park is today. The flood of 1947 caused damage to the plant so they decided to move to a better location. In 1948, construction began on a new building at the present site. At that time the Mayor and City Council governed the Light Plant. In 1961 the City voted to have the Light Plant governed by a board of trustees.

During the construction of this building, two new Superior 1000kw generators were installed. These generators are still in use today. After these generators became operational they moved two Worthington generators from the old plant. These units have since been removed to make room for new Caterpillar generators.

As the City grew the demand for electricity also grew, so additional generation had to be added. In 1957, a twenty-foot addition was added to the west side of the building to make room for the installation of a 2500kw Worthington generator. In 1964, another addition was added to the west allowing space for two additional generators. At this time a 3200kw Worthington generator was installed. In 1973, a 6250kw Worthington generator was installed and a new Control Room was added to the south side of the building.

In 1975, the interconnection with Interstate Power Company was installed. This meant that the plant went to a standby status and power was purchased from Interstate Power Company. Power was generated during times of high usage and during emergencies. Presently we are still in a standby status and from May 1996 until May 2006, we have been purchasing power from Dairyland Power Company. On April 20, 2006 a contract was signed with Wisconsin Energy, (WPPI) to purchase power beginning May 1, 2006 for a period of 30 years.

In October of 1979 the Line Shop moved to their present location. In 1987, we began to upgrade the electrical distribution system from 2400 volts to 12,470 volts. This upgrade was completed in January of 2002. In order to better serve our customers, a drive-thru pay window was installed in 1992 and the billing functions were moved from City Hall to the plant.

In 1995, two 1860kw Caterpillar generators were installed in place of the 1935 generator. In March of 1999, the 1939 generator was also removed to make room for additional Caterpillar generators. In May of 2000 three 1860kw Caterpillar generators came on line. In 2007 the two 1949 Superior generators were retired and currently the total generating capacity of the plant is 21,250kw.

In November of 1997 by a majority vote, the citizens of Independence approved the formation of a telecommunications company. A new administration building was built across the street from the plant and in May of 2000 the office and management personnel moved in. The vacated office area at the plant was remodeled for the new telecommunications equipment. Cable TV became operational in December of 2000 and internet on May of 2001. In 2006, telephone service, or Voice Over Internet Protocol (VOIP) was added as an additional service.

In June of 2003 work began on the site of the west substation. This substation was installed to handle the continued growth west of the river. It will also be used to serve the entire town when east substation needs to be taken out of service. We are continuing to stay abreast with our customers' needs and keeping a watchful eye to the future. Our goal is the same as our founders, to deliver low cost dependable power to all citizens well into the future.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Ronald Curry, Interim General Manager, P.O. Box 754, Independence, IA 50644.

INDEPENDENCE LIGHT & POWER
Independence, Iowa
ANALYSIS OF KILOWATT HOURS AND BILLINGS
For the Year Ended December 31, 2011
(unaudited)

Type of Service:	KWH Billed	Amount Billed	Revenue in cents/KWH	% KWH to Total	% Revenues to Total	Number of Accts
Residential Service	21,394,861	3,629,986	16.97	34.01%	45.53%	2,618
Security Lights	175,372	28,890	16.47	0.28%	0.36%	
Commercial Service	12,508,862	1,658,001	13.25	19.88%	20.79%	363
Demand Power	25,662,280	2,329,442	9.08	40.79%	29.21%	22
Total to Customers	<u>59,741,375</u>	<u>7,646,319</u>	12.80	<u>94.95%</u>	<u>95.90%</u>	<u>3,003</u>
Municipal Sales:						
Street Lighting	716,988	90,533	12.63	1.14%	1.14%	1
City Bldgs, Parks, Water Pumpin	876,386	116,298	13.27	1.39%	1.46%	27
City Demand Power	1,394,480	120,311	8.63	2.22%	1.51%	2
Plant Lights, Office & Line Shop	186,308	0	0.00	0.30%	0.00%	
Total Municipal	<u>3,174,162</u>	<u>327,142</u>	10.31	<u>5.05%</u>	<u>4.10%</u>	<u>30</u>
Power Cost Adjustment	n/a		0.00	n/a	0.00%	
TOTALS	<u>62,915,537</u>	<u>7,973,461</u>	12.67	<u>100.00%</u>	<u>100.00%</u>	<u>3,033</u>

Analysis of Energy Generated:

Kilowatt Hours Generated	255,480
Less KWH Consumed by Station	<u>434,353</u>
KWH to Distribution Feeders	-178,873
KWH Purchased	<u>65,877,999</u>
Total	65,699,126
Kilowatt Hours Billed and Metered	<u>62,915,537</u>
Line Loss in Kilowatts	<u>2,783,589</u>
Line Loss as a Percent to Total	4.24%

Revenue by Category: Power Cost Adjustment Separate

2011

	January	February	March	April	May	June	July	August	September	October	November	December	Total	Total for acct
Residential	2,230,636	1,863,123	1,683,677	1,451,327	1,371,581	1,373,406	1,954,562	2,668,884	2,213,832	1,642,347	1,263,169	1,678,317	21,394,861	21,394,861
Power Cost Adjustment	1,092,739	1,035,587	952,170	949,644	948,743	989,956	1,160,390	1,268,082	1,196,008	989,314	927,781	998,448	12,508,862	0
Commercial	1,956,900	2,157,080	1,935,820	2,124,380	2,305,040	2,248,400	2,216,900	2,316,820	2,182,960	2,029,600	2,181,060	2,007,320	25,662,280	0
Industrial	14,295	14,291	14,235	14,370	14,445	14,454	14,406	14,544	14,499	14,823	15,388	15,622	175,372	0
Power Cost Adjustment	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	59,749	716,988	175,372
Security Lites	66,826	68,872	54,957	59,717	69,465	82,922	110,136	111,405	78,420	57,558	56,251	59,857	876,386	716,988
Street/HWY	111,840	120,800	112,160	120,800	125,120	116,640	112,160	120,080	120,880	103,120	120,400	110,480	1,394,480	876,386
City Comm	5,532,985	5,319,502	4,812,768	4,779,987	4,894,143	4,885,527	5,628,303	6,559,564	5,866,348	4,896,511	4,623,798	4,929,793	62,729,229	0
Power Cost Adjustment														62,729,229

INDEPENDENCE LIGHT & POWER
Independence, Iowa
ENERGY AND REVENUE ACCOUNTING REPORT
For Years Ended December 31, 2011, 2010, 2009, 2008
(unaudited)

	2011		2010		2009		2008	
	KWH	%	KWH	%	KWH	%	KWH	%
1. Total Gross Energy (all sources; % of previous year)	66,133,479	99.6%	66,370,141	109.8%	60,462,663	95.1%	63,581,565	101.0%
2. Purchased Energy (% of line 1)	65,877,999	99.6%	66,126,335	99.6%	60,227,746	99.6%	63,416,663	99.7%
3. Total Gross Energy Generated (line 1 - line 2)	255,480	100.0%	243,806	100.0%	234,917	100.0%	164,902	100.0%
4. Energy Consumed by Station (% of line 3)	434,353	170.0%	439,630	180.3%	503,514	214.3%	494,250	299.7%
5. Total Net Energy Generated	-178,873	-70.0%	-195,824	-80.3%	-268,597	-114.3%	-329,348	-199.7%
6. Total Net Energy Outgoing Feeders	65,699,126	100.0%	65,930,511	100.0%	59,959,149	100.0%	63,087,315	100.0%
7. Net Distributed Energy (% of line 6)	62,915,537	95.8%	62,761,123	95.2%	56,679,526	94.5%	59,741,896	94.7%
8. Energy Lost in Distribution System (% of line 6)	2,783,589	4.24%	3,169,388	4.81%	3,279,623	5.47%	3,345,419	5.30%
ENERGY CONSUMED BY EACH SERVICE AND PERCENT CHANGE IN CONSUMPTION:								
	KWH	% Change	KWH	% Change	KWH	% Change	KWH	% Change
Residential Service	21,394,861	-1.1%	21,622,497	7.7%	20,079,480	-5.2%	21,173,027	-2.8%
Commercial Service	12,508,862	2.6%	12,194,628	18.9%	10,259,191	-2.1%	10,483,009	-2.8%
Demand Power	25,662,280	0.3%	25,575,480	11.4%	22,952,060	-6.6%	24,582,420	5.7%
Security Lights	175,372	1.9%	172,147	-2.2%	175,961	-7.2%	189,526	1.1%
City Bldgs, Parks, Water Pump, Traffic Signals	876,386	5.6%	830,254	-6.2%	884,692	0.8%	877,646	3.2%
City Demand Accts: WWTP, Pump Station, Shop	1,394,480	-4.3%	1,457,200	2.1%	1,427,920	-6.9%	1,534,480	6.9%
Street Lights	716,988	0.0%	716,988	0.0%	716,988	0.0%	716,988	0.1%
Plant Lights, Office & Line Shop	<u>186,308</u>	-2.9%	<u>191,929</u>	4.7%	<u>183,234</u>	-0.8%	<u>184,800</u>	-0.6%
TOTAL	62,915,537	0.2%	62,761,123	10.7%	56,679,526	-5.1%	59,741,896	0.9%
ELECTRIC SALES INCLUDING AVERAGE UNIT REVENUE PER KWH:								
	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents
Residential Service	3,629,986	16.97	3,456,833	15.99	3,248,101	16.18	3,010,313	14.22
Commercial Service	1,658,001	13.25	1,530,042	12.55	1,303,940	12.71	1,196,417	11.41
Demand Power	2,329,442	9.08	2,176,966	8.51	2,009,493	8.76	1,991,686	8.10
Security Lights	28,890	16.47	28,607	16.62	28,728	16.33	25,887	13.66
City Bldgs, Parks, Water Pump, Traffic Signals	116,298	13.27	104,212	12.55	111,084	12.56	99,267	11.31
City Demand Accts: WWTP, Pump Station, Shop	120,311	8.63	120,936	8.30	117,766	8.25	120,000	7.82
Street Lights	<u>90,533</u>	12.63	<u>85,896</u>	11.98	<u>85,896</u>	11.98	<u>78,152</u>	10.90
TOTAL	7,973,461	12.67	7,503,492	11.96	6,905,008	12.18	6,521,722	10.92

INDEPENDENCE LIGHT & POWER
Independence, Iowa
UTILITY STATISTICS AND OPERATING INFORMATION
For Years Ended December 31, 2011, 2010, 2009, 2008
(unaudited)

				2011	2010	2009	2008				
Gene No.	Unit Year	Fuel	KW Capacity	KWH Generated	KWH Generated	KWH Generated	KWH Generated				
Installed 2000	1	1949	out of service 4/07	0	0	0	0				
	1A	2000	Oil	44,776	23,652	25,365	12,901				
	2	1949	out of service 4/07	0	0	0	0				
	3A	1996	Oil	45,000	24,000	22,000	21,000				
Installed 2000	3B	1996	Oil	45,000	23,000	22,000	21,000				
	4A	2000	Oil	44,290	23,511	26,116	13,035				
Installed 2000	4B	2000	Oil	46,414	23,643	25,436	12,966				
	5	1957	Dual	6,000	28,000	22,000	18,000				
	6	1964	Dual	8,000	30,000	30,000	19,000				
	7	1973	Dual	16,000	68,000	62,000	47,000				
TOTAL CAPACITY & KWH GENERATED			21,250	255,480	243,806	234,917	164,902				
PURCHASED KILOWATT HOURS				65,877,999	66,126,335	60,227,746	63,416,663				
TOTAL KWH				66,133,479	66,370,141	60,462,663	63,581,565				
Unit No.	Type Fuel			Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity
1	Oil			0	0%	0	0%	0	0%	0	0%
1A	Oil			27	89%	14.5	88%	15.5	88%	8.25	84%
2	Oil	out of service 4/07		0	0%	0	0%	0	0%	0	0%
3A	Oil			27	90%	15	86%	13.5	88%	12.75	89%
3B	Oil			27	90%	14.5	85%	13.5	88%	12.75	89%
4A	Oil			27	88%	14.5	87%	15.5	91%	8.25	85%
4B	Oil			28	89%	14.5	88%	15.5	88%	8.25	84%
5	Oil & Gas			3.5	69%	16.25	69%	11.75	75%	8	90%
6	Oil & Gas			3.5	71%	12.25	77%	11.75	80%	8	74%
7	Oil & Gas			3.5	73%	12.5	87%	11.75	84%	9	84%
TOTAL PLANT FUEL CONSUMPTION FOR ENERGY GENERATION ONLY			Oil Gas	Fuel Consumed		Fuel Consumed		Fuel Consumed		Fuel Consumed	
				19,217 gal		18,854 gal		17,028 gal		11,995 gal	
TOTAL & UNIT COST FOR ENERGY GENERATION ONLY			Oil Gas	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost
				39,566	2.059	40,074	2.125	36,749	2.158	26,455	2.205
				0	0	0	0	0	0	0	0
TOTAL UNIT OPERATING COST (omit interest, depreciation & taxes)				Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH
Total Fuel Cost for Energy Generated				39,650	15.52	40,189	16.48	36,876	15.70	27,256	16.53
Purchased Power Cost				5,175,095	7.86	5,123,414	7.75	4,323,536	7.18	4,287,279	6.76
Generation & Purchased Cost to Feeders				5,579,314	8.49	5,523,392	8.38	4,726,111	7.88	4,694,461	7.44
Generation & Purchased Cost to Consumers				5,579,314	8.87	5,523,392	8.80	4,726,111	8.34	4,694,461	7.86
Distribution Cost to Consumers				371,405	0.59	405,198	0.65	403,005	0.71	712,513	1.19
Accounting & Collection Expenses to Consumers				125,659	0.20	127,890	0.20	111,143	0.20	116,483	0.19
Office Admin. & General Expenses to Consumers				894,502	1.42	1,118,476	1.78	1,092,465	1.93	1,044,601	1.75
Total Delivered Cost to Consumers				6,970,879	11.08	7,174,956	11.43	6,332,724	11.17	6,568,058	10.99
MAXIMUM DEMAND ON PLANT (MOMENTARY)				15,266 KW		13,930 KW		12,720 KW		12,410 KW	
Maximum Momentary Demand				07/19/10 5:00 PM		07/14/10 6:00 PM		06/23/09 3:35 PM		07/29/08 4:15 PM	
Month, Day & Hour of Occurrence											

INDEPENDENCE LIGHT & POWER
Independence, Iowa
(unaudited)

Electric Rate Schedule

Effective January 1, 2011

Residential:	Service Charge	\$13.50
	All kWh	\$0.1498
Commercial:	Service Charge	\$20.00
	All kWh	\$0.12595
Industrial:	Service Charge	\$120.00
	Demand Charge	\$10.60 per KW
	All kWh	\$0.0630

An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.

Security Lighting Monthly Rental Fees

Effective January 1, 2009

100 Watt High Pressure Sodium	10.00
250 Watt High Pressure Sodium	15.00
400 Watt High Pressure Sodium	18.50
400 Watt Metal Halide	15.00
Metal Arch	10.00

INDEPENDENCE LIGHT AND POWER
Independence, Iowa

MONTHLY & YEARLY PEAK LOAD IN KILOWATTS
For the Year Ended December 31, 2011
(unaudited)

Date	KW	Time	Day
January 21	9,808	10:00 AM	Friday
February 8	9,404	7:00 PM	Tuesday
March 3	8,825	11:00 AM	Thursday
April 28	8,551	10:00 AM	Thursday
May 11	10,360	12:00 AM	Wednesday
June 30	13,563	6:00 PM	Thursday
July 19	15,266	5:00 PM	Tuesday
August 2	14,314	5:00 PM	Tuesday
September 1	13,557	5:00 PM	Thursday
October 11	8,858	12:00 AM	Tuesday
November 29	9,352	6:00 PM	Tuesday
December 5	9,764	6:00 PM	Monday

2011 Peak for the Year

July 19	15,266	5:00 PM
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Comparison

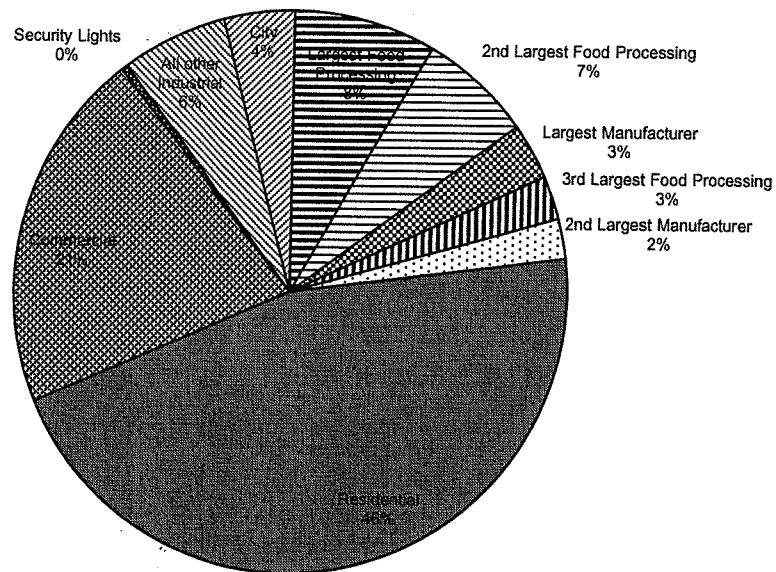
2010 Peak	13,930
2009 Peak	12,720
2008 Peak	12,410
2007 Peak	13,398
2006 Peak	15,030
2005 Peak	16,580
2004 Peak	15,500
2003 Peak	17,000
2002 Peak	15,500
2001 Peak	16,310
2000 Peak	16,030
1999 Peak	16,310
1998 Peak	13,836
1997 Peak	13,950
1996 Peak	14,000
1995 Peak	15,800
1994 Peak	12,500
1993 Peak	12,600
1992 Peak	10,500

INDEPENDENCE LIGHT & POWER
Independence, Iowa

TEN LARGEST INDUSTRIAL CUSTOMERS
December 31, 2011
(unaudited)

	Customer	KWh Metered At Industrial Rate	Revenue	% of Total Revenue
Ranking:				
1	Food Processing	7,616,760	\$659,833	8.3%
2	Food Processing	5,892,000	\$527,824	6.6%
3	Manufacturing	2,879,840	\$261,645	3.3%
4	Food Processing	2,180,320	\$198,476	2.5%
5	Manufacturing	2,089,200	\$184,037	2.3%
6	Government	1,394,480	\$120,311	1.5%
7	Health Care	1,252,260	\$110,382	1.4%
8	Education	1,067,840	\$116,615	1.5%
9	Retail	649,520	\$61,923	0.8%
10	Retail	365,700	\$35,348	0.4%
	Total of Ten Largest	25,387,920	\$2,276,394	28.5%

INDEPENDENCE LIGHT & POWER
Independence, Iowa
2011 REVENUE BREAKDOWN
Shows 5 Largest Customers Individually
(unaudited)



Customer		KWh	Revenue	% of Total Revenue
1	Largest Food Processing	7,616,760	\$659,833	8.28%
2	2nd Largest Food Processing	5,892,000	\$527,824	6.62%
3	Largest Manufacturer	2,879,840	\$261,645	3.28%
4	3rd Largest Food Processing	2,180,320	\$198,476	2.49%
5	2nd Largest Manufacturer	2,089,200	\$184,037	2.31%
All Others	Residential	21,394,861	\$3,629,986	45.53%
	Commercial	12,508,862	\$1,658,001	20.79%
	Security Lights	175,372	\$28,890	0.36%
	All other Industrial	5,004,160	\$497,627	6.24%
	City	2,987,854	\$327,142	4.10%
Total Sales		62,729,229	\$7,973,461	100.00%

Basic Financial Statements

Independence Light and Power, Telecommunications

Statement of Net Assets

December 31, 2011 and 2010

LIABILITIES AND NET ASSETS:	2011	2010
Current Liabilities:		
Accounts Payable	\$ 677,576	670,145
Accrued wages payable	41,512	39,745
Accrued vacation and sick pay	901,130	823,796
Other accrued expenses	31,635	30,719
Current portion of long term debt	496,571	352,116
Total Current Liabilities	2,148,424	1,916,521
Other Liabilities:		
Accrued retirement insurance	482,726	526,232
Note payable - BankIowa	-	90,210
Note payable - USDA revolving loan fund	300,000	300,000
Electric revenue project note payable	3,755,648	4,136,993
Less: Current portion of long-term debt shown above	(496,571)	(352,116)
Total Other Liabilities	4,041,803	4,701,319
Net Assets:		
Invested in capital assets, net of related debt	10,575,417	10,991,629
Unrestricted	2,197,030	971,046
Total Net Assets	\$ 12,772,447	11,962,675

See notes to financial statements

Independence Light and Power, Telecommunications
Statement of Revenues, Expenditures, and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Charges for services	\$ 10,808,892	10,294,551
Miscellaneous operating revenue	<u>118,918</u>	<u>96,935</u>
Total Operating Revenue	<u>10,927,810</u>	<u>10,391,486</u>
Operating expenses:		
Generation expenses	5,582,862	5,532,523
Distribution expenses	371,924	398,701
Customer account expenses	124,395	127,890
Administration and general expenses	849,157	1,127,077
Cable and internet expenses	1,738,789	1,643,184
Depreciation and amortization expenses	934,566	919,754
Benefits to community and city	<u>457,580</u>	<u>337,751</u>
Total Operating Expenses	<u>10,059,273</u>	<u>10,086,880</u>
Operating Income	868,537	304,606
Non-Operating Revenues (Expenses):		
Interest income	62,787	69,174
Interest expense	(153,250)	(193,921)
Gain (loss) on disposal of assets	(2,990)	8,825
Other revenue	<u>34,688</u>	<u>27,365</u>
Total Non-Operating Revenues (Expenses)	<u>(58,765)</u>	<u>(88,557)</u>
Changes in Net Assets	809,772	216,049
Net Assets, beginning of year	<u>11,962,675</u>	<u>11,746,626</u>
Net Assets, end of year	<u>\$ 12,772,447</u>	<u>11,962,675</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 10,740,757	10,251,716
Cash received from other revenues	153,606	124,300
Cash paid for services	(770,056)	(1,133,822)
Cash paid to suppliers	(8,339,805)	(7,902,811)
Net cash provided by operating activities	<u>1,784,502</u>	<u>1,339,383</u>
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(521,344)	(513,607)
Disposal of capital assets	-	16,649
Principal paid on revenue notes	(471,555)	(433,694)
Interest paid on revenue notes	(153,250)	(193,921)
Proceeds from long term debt issuance	-	300,000
Issuance of revolving note receivable	-	(360,000)
Repayment of revolving note receivable	51,428	17,143
Net cash used by capital and related financing activities	<u>(1,094,721)</u>	<u>(1,167,430)</u>
Cash flows from investing activities:		
Cash paid for investments	(11,679)	(6,029)
Interest on investments	62,787	69,174
Net cash provided by investing activities:	<u>51,108</u>	<u>63,145</u>
Net increase in cash and cash equivalents	740,889	235,098
Cash and cash equivalents beginning of year	<u>2,786,291</u>	<u>2,551,193</u>
Cash and cash equivalents end of year	<u>\$ 3,527,180</u>	<u>2,786,291</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 868,537	304,606
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	934,566	919,754
Non-operating revenue	34,688	27,365
(Increase) decrease in:		
Accounts receivable	(55,518)	(71,673)
Unbilled revenues receivable	(13,388)	22,948
Interest receivable	771	5,890
Inventory	(20,533)	44,753
Prepaid expenses	(8,563)	(646)
Increase (decrease) in:		
Accounts payable	7,431	59,517
Accrued wages payable	1,767	7,241
Accrued vacation and sick pay	77,334	(13,986)
Other accrued expenses	916	10,723
Accrued retirement insurance	(43,506)	22,891
Net cash provided by operating activities	<u>\$ 1,784,502</u>	<u>1,339,383</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:		
Current assets:		
Cash and pooled investments	<u>\$ 3,527,180</u>	<u>2,786,291</u>
Cash and cash equivalents at year end	<u>\$ 3,527,180</u>	<u>2,786,291</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Notes to Financial Statements

December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

The Independence Light and Power, Telecommunications, a municipal utility, is a subdivision of the City of Independence, which is a political subdivision of the State of Iowa. The Utility is considered a related organization of the City under Governmental Accounting Standards Board Statement No. 61. Independence Light and Power, Telecommunications is a public utility providing electrical, cable, internet, and telephone services to the citizens of the City of Independence, Iowa.

The Utility's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For reporting purposes, Independence Light and Power, Telecommunications has included all funds. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining if the Utility is a component unit of the City of Independence. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utility is governed by a separate Board of Trustees which is appointed by the Mayor. The criteria evaluates 1) the ability of the primary government (City of Independence) to impose its will on the Utility or 2) the potential for the City to provide specific benefits to or impose specific financial burdens on the Utility. Independence Light and Power, Telecommunications is a related organization of the City of Independence, and not a component unit.

Independence Telecommunications Utility, which provides cable, internet, and telephone services, is legally separate from Independence Light and Power, the Electric Utility, but is financially accountable to the Electric Utility, or whose relationship with the Electric Utility is such that exclusion would cause the Electric Utility's financial statements to be misleading or incomplete. The Telecommunications Utility is governed by the same five-member Board as the Electric Utility, and appointed by the City Council.

B. Basis of Presentation:

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on all of the nonfiduciary activities of the Utility. For the most part, the effect of the interfund activity has been removed from these statements.

The Statement of Net Assets displays the Utility's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utility's policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utility's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit and investments in transmission which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash and cash equivalents for cash flows statements purposes are as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 1,793,874	1,058,428
Board designated funds	<u>4,533,306</u>	<u>4,527,863</u>
Total Cash	6,327,180	5,586,291
Less: Certificates of deposit – term longer than three months	<u>(2,800,000)</u>	<u>(2,800,000)</u>
Cash and Cash equivalents	<u>\$ 3,527,180</u>	<u>2,786,291</u>

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories – Inventories are valued at average cost using the first-in/first-out method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Board Designated Funds – These consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets, future investment in transmission, and future health insurance payments for retired employees. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, were recorded in 1954 at their appraised value with all subsequent additions recorded at cost and are reported on the Statement of Net Assets. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenditures and Net Assets.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utility as assets with initial, individual costs in

excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 75,202
Equipment and vehicles	1,622,844
Infrastructure	19,251,263
Land Rights and Intangibles	223,663
Telecommunications	4,116,326

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	15-40
Vehicles	5-10
Equipment and Computers	3-25
Furniture	7-10
Infrastructure	15-55
Land Rights and Intangibles	10-40
Telecommunications equipment	5-25

Revenue - The Statement of Revenues, Expenditures and Changes in Net Assets is segregated into operating and non-operating sections. Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of the Utility. Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

Income Taxes - Independence Light and Power, Telecommunications is a subdivision of the State of Iowa and exempt from federal and state income taxes.

(2) Cash and Investments

Independence Light and Power, Telecommunications' deposits in banks at December 31, 2011 and 2010 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In order to offset rising transmission costs, the Board of Trustees, through and in conjunction with its membership in the Midwest Municipal Transmission Group (MMTG), on June 25, 2009 entered into a Joint Agreement as a participating municipal utility with Iowa Public Power

Agency (IPPA) for investment rights in the construction or acquisition and ownership of transmission upgrades and additions to Mid American Energy Company's (MEC) transmission system. IPPA is to issue and sell bonds to finance the cost of each agreement and transmission assets are to be operated by MEC. The initial investment and ownership interest is \$122,148 and 8.891%, respectively. If, upon termination of this Joint Agreement, there remains any property or assets in which the parties own an undivided interest, said property or assets shall be disposed of on a pro-rate basis in accordance with the terms of the agreement.

On February 28, 2007, the Utility through and in conjunction with its membership in MMTG, also agreed to participate in the Brookings-Twin Cities Development Project Agreement with the Central Minnesota Municipal Power Agency (CMMMPA) for the purpose of pursuing Development work for a Transmission Project. This Transmission Project (herein after referred to as "the Project") is being undertaken to assist in the maintenance and enhancement of system reliability for electric customers in the upper Midwest region. This agreement addresses the Development phase of the Transmission Project and will be replaced with an agreement providing for ILPT's entitlement and other related rights and arrangements pertaining to the Transmission Project once the development phase is completed. The initial agreement shall be for five years, but can be extended in one year increments until the Development work has been completed. Independence Light and Power, Telecommunications' is an "open participant" in this agreement, meaning that it does not participate in CMMMPA's financing of the Development work and their "Participant Election Share" is 2.43%. Participants are responsible for their share of the monthly Development work costs, whether or not the Transmission Project is actually developed. ILPT's share of the Development work cost is to be \$248,648, of which \$46,720 had been invested as of December 31, 2011.

The carrying value and the approximate market value of the Utility's investment in transmission at December 31, 2011 was \$168,869.

(3) Accounts Receivable

As of December 31, this account consisted of the following:

	<u>2011</u>	<u>2010</u>
Accounts Receivable	\$ 956,448	897,990
Less: Allowance for doubtful accounts	(65,488)	(62,548)
Balance	<u>\$ 890,960</u>	<u>835,442</u>

(4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Utility. At December 31, 2011 and 2010, these amounts were \$189,892 and \$176,504, respectively.

(5) Inventories

Inventory is stated at the lower of cost or market. At December 31, inventories consisted of the following:

	<u>2011</u>	<u>2010</u>
Fuel oil	\$ 69,531	84,993
Lube oil	2,434	2,436
Distribution	157,699	183,138
Generation	108,197	108,197
Cable and internet supplies	<u>129,467</u>	<u>68,031</u>
	<u>\$ 467,328</u>	<u>446,795</u>

(6) Reserved Funds

The reserved funds are amounts the Board has restricted for specific purposes.

Capital Improvement Fund – At the October 20, 1994 meeting, the Board approved the combining of the Improvement Fund and the Future Construction Fund and called it the Capital Improvement Funds. This fund is to be used for new construction projects and improvements. Monthly transfers to this fund are to be \$15,000. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the policy was changed to have \$40,000 transferred to this fund each month. At the February 23, 2006 board meeting, the policy changed to have \$20,000 transferred to this fund each month. During 2011, monthly transfers totaled \$240,000 into the fund. Transfers from the fund during the year totaled \$76,957.28 for capital improvement projects.

Retirement and Severance Fund – The Board of Trustees has reserved this to pay for future health insurance coverage for retired employees. It also helps fund the accrued vacation and sick leave for current employees. This fund is to equal the combined retirement and severance liabilities. \$7,700 is transferred into this fund each month. During 2011, \$92,400 was transferred into the fund.

Self Insurance Fund – The Board of Trustees has reserved the amounts in this fund to replace the distribution system that might be destroyed by a natural disaster. This reduces the amount of insurance premium that would be incurred if an outside insurer were paid for this coverage. Prior to October 1994, this fund was funded with all interest income received. At the October 20, 1994 board meeting, the policy was changed to have \$2,500 transferred to this fund each month. At the July 25, 1996 board meeting, the policy was changed retroactive to June 1996 to have \$15,000 transferred to this fund each month. In December 1996, the Board of Trustees approved an additional transfer of \$25,000 to the fund. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the board approved a transfer of \$181,596 to this fund from the Retirement and Severance Fund, and approved capping this fund at \$1,000,000. At the November 19, 2009 board meeting, the board approved a transfer of \$250,000 to this fund from the checking account. At the August 25, 2011 board meeting the board approved a donation to the Mustang Foundation for the building of the new Junior-Senior High School for \$500,000 to be paid from this fund. An initial transfer of \$250,000 to the general checking account and then written to the Mustang Foundation was made in 2011. The remaining \$250,000 will be transferred from this fund over the next three years. The board has approved a payback schedule of monthly transfers for \$8,333.34 for 60 months from revenues to the Self Insurance Fund.

At the April 19, 2007 Board of Director's meeting, it was approved to create a new restricted fund - Investment in Transmission. The funds will be used for future transmission capital investing.

(7) Capital Assets

Capital Assets Not Being Depreciated:	<u>2011</u>	<u>2010</u>
Land	\$ 244,162	244,162
Construction in Progress	<u>-</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>\$ 244,162</u>	<u>244,162</u>

Capital Assets Being Depreciated:

Telecommunications Outside Plant	\$ 2,307,919	2,307,919
Buildings and Improvements	104,015	104,015
Generation in Service	8,765,743	8,755,040
Distribution in Service	8,121,655	8,003,584
Office and Office Equipment	986,860	984,210
Small Tools	55,946	55,946
Transportation	875,374	851,353
Cable and Internet Equipment	<u>3,827,624</u>	<u>3,469,143</u>
Total Capital Assets Being Depreciated	25,045,136	24,531,210
Less Accumulated Depreciation	(<u>14,713,881</u>)	(<u>13,783,742</u>)
Net Capital Assets Being Depreciated	<u>10,331,255</u>	<u>10,747,467</u>
Net Capital Assets	<u>\$ 10,575,417</u>	<u>10,991,629</u>

(8) Accrued Vacation and Sick Pay

At December 31, 2011 and 2010, Independence Light and Power, Telecommunications had accrued vacation payable of \$85,299 and \$74,776, respectively. An employee may carry forward only five days of vacation from one year to the next. An employee earns their vacation days on their anniversary date.

All full-time employees accrue sick leave at a rate of 2 days per month up to a maximum of two-hundred-eighty (280) days. Upon retirement, medical disability, or death, an employee will be paid up to fifty percent of 240 days of his or her accumulated sick leave. At December 31, 2011 and 2010, the accumulated sick leave was \$815,831 and \$749,021, respectively.

(9) Termination Benefit - Accrued Retirement Insurance

During 1986, the Board of Trustees voted to recognize the probable liability of retirement health insurance coverage by appropriating funds for this purpose, based on the life expectancy of each retiree. The amount of probable liability was determined using life expectancy tables and a variable health care inflation assumption and those amounts were placed in a long-term investment. The Utility will recognize the liability incurred and accordingly restrict the equivalent amount of cash. The criteria for determining eligibility includes years of service and employee age. The benefit is available to the spouse for up to three months after the death of the retiree. At December 31, 2011 and 2010, Independence Light and Power, Telecommunications had accrued retirement insurance of \$482,726 and \$526,232.

At a July 2004 Board of Trustees meeting, the Utility adopted a resolution stating that future retirees would not be provided retirement health insurance coverage. Current retirees and spouses will continue to be covered under the plan.

At December 31, 2011 and 2010, Independence Light and Power, Telecommunications covered 11 retired employees and 9 retired employee's spouses.

Plan Description - The Utility operates a single-employer benefit plan which provides medical/prescription drug benefits or Medicare supplement, if applicable, for employees, retirees and their spouses. There are 21 active employees and 20 retired employees and their spouses in the plan. During the year the Utility board approved changing to a partial self-funded insurance plan through Wellmark Blue Cross and Blue Shield effective April 1, 2011.

Funding Policy - The contribution requirements for plan members are established by the Utility board and may be amended. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the active Utility employees are \$384 for single coverage, \$787 for single plus spouse, \$728 for single plus child,

and \$1,180 for family coverage. The retiree Medicare supplemental premiums for the Utility are \$196 per retired member. For the year ended December 31, 2011, the Utility contributed \$324,795 for health insurance premiums and their employer portion of the self-funded premiums for active and retired employees.

(10) Pension and Retirement Benefits

Independence Light and Power, Telecommunications contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

As of January 1, 2011, plan members were required to contribute 4.50% of their annual covered payroll and the Utility is required to contribute 6.95% of covered payroll. The rates changed effective July 1, 2011 and the required contribution rates were 5.38% for plan members and 8.07% for the Utility. Contribution requirements are established by state statute. The contributions paid to IPERS by Independence Light and Power, Telecommunications for the years ended December 31, 2011, 2010, and 2009 were \$93,961, \$83,184, and \$76,902 and respectively, equal to the required contributions for each year.

(11) Long-Term Debt

On December 29, 2006, the Utility signed a loan agreement with BankIowa. The loan is payable from the revenue from the operation of the Utility. The loan was for \$436,409. Principal and interest payments are payable for 59 months in the amount of \$8,700 beginning on February 1, 2007, with a final installment of all remaining principal and interest due at maturity on December 1, 2011. At December 31, 2011 the loan was paid in full.

The Utility issued an Electric Revenue Improvement and Refunding Note dated August 1, 2005. The balance at December 31, 2010 was \$4,136,993. On July 21, 2011 the Utility signed an Agreement to Amend Terms of Electric Revenue Improvement and Refunding Note, Series 2005, which changed the note from a variable rate to a fixed rate of 2.70% as of August 1, 2011. Monthly principal and interest payments are now \$40,736.91 beginning September 1, 2011. The balance at December 31, 2011 was \$3,755,648. Beginning January 1, 2012, the Utility desires to pay an additional \$8,700 per month to reduce principal on the loan; the new principal and interest payment will be \$49,436.91.

The electric revenue note is a revenue note issued under the provisions of Chapter 384 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Utility. The details of the Utility's indebtedness are as follows:

Year Ending December, 31	Interest Rate	Principal	Interest	Total
2012	2.70	496,571	96,672	593,243
2013	2.70	510,204	83,039	593,243
2014	2.70	524,130	69,113	593,243
2015	2.70	538,458	54,785	593,243
2016 - 2019	2.70	1,686,285	74,505	1,760,790
Total		\$ 3,755,648	378,114	4,133,762

The Utility reserves the right to prepay principal on this note in whole or in part at any time prior to and in any order of maturity on terms of par and accrued interest.

In 2010 the Utility received a \$300,000 loan from the United States Department of Agriculture in order to establish a revolving loan fund. The Utility also was required to contribute \$60,000 of its own funds towards the revolving loan fund. The total of \$360,000 is available for the Utility to make loans to customers for economic development purposes. As the funds are paid back, the Utility is able to loan the funds to other customers. During the year 2010, the entire balance of \$360,000 was loaned to the Buchanan County Health Center (BCHC) for their ambulance addition and remodeling project as a seven year, zero interest loan. As of December 31, 2011 and 2010 the loan receivable balances were \$291,429 and \$342,857, respectively.

(12) Related Party Transactions

Independence Light and Power, Telecommunications provides electrical service to the City of Independence. During the years ended December 31, 2011 and 2010, the charges for this electrical service were \$ \$328,257. In addition, the City paid \$23,761 for meter reading.

During 2011 and 2010, Independence Light & Power, Telecommunications donated \$156,000 to the City of Independence.

(13) Lease Agreements

Independence Light and Power, Telecommunications has a Joint Use Contract with CenturyLink Corporation (formerly Qwest Corporation). Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by CenturyLink Corporation) was 518 poles. During the years ended December 31, 2011 and 2010, Independence Light and Power, Telecommunications received \$8,697.

The Utility also has a Joint Use Contract with Mediacom. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Mediacom) was 1,773 poles. During the years ended December 31, 2011 and 2010, Independence Light and Power, Telecommunications received \$30,625 and \$29,853 and respectively.

(14) Commitments

On March 2, 2006, the Utility signed a letter of intent to purchase power from Wisconsin Public Power, Inc. (WPPI). The letter of intent states the contract period will be from May 1, 2006 through December 31, 2037 with an average wholesale cost of power projected to be \$58.28/MWh for 2006. An official contract for service was approved and signed at the April 20, 2006 meeting of the board of directors.

At the August 25, 2011 board meeting it was agreed to pledge a donation of \$500,000 to the Mustang Foundation's "Bridge the Gap" campaign to build a new Junior-Senior High School in Independence. The donation is to be used for energy efficient equipment for the new school. As of December 31, 2011, \$250,000 of the pledge had been paid with the remainder to be paid over the next three years.

(15) Risk Management

Independence Light and Power, Telecommunications is exposed to various risks of loss related to torts, theft, damages, and natural disaster. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past three years.

(16) Comparative Financial Statements

As a result of the issuance of several new Governmental Accounting Standards Board Statements, comparative information in the Statement of Cash Flows is presented differently for the year ended December 31, 2011 than for the year ended December 31, 2010. The dollar amounts presented remain the same.

(17) Subsequent Events

The Utility applied for and received in March 2012 a \$707,750 Rural Economic Development Loan from the Rural Business-Cooperative Service division of the United States Department of Agriculture. This was in turn loaned out to Wapsie Valley Creamery at zero interest for the construction of a building to expand their creamery production facilities and office space. The Utility is acting as a pass-through entity; the Creamery will make the loan payment to the Utility and the Utility will pay the same loan payment to the USDA.

GenSoft, the Utility's telephone software provider, discovered during the year they had been mistakenly undercharging the Utility for services. The accumulated sum underpaid was \$37,418.10 from January 1, 2010 through August 31, 2011. The Utility settled with GenSoft in April 2012 to pay half of the total service amount owed, or \$18,709.05.

The General Manager of the Utility, Darrel Wenzel, retired effective May 8, 2012. Ron Curry, the Assistant General Manager, was appointed Interim General Manager until a replacement can be hired.

Required Supplementary Information

Independence Light and Power, Telecommunications

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Disbursements did not exceed amounts budgeted at December 31, 2011.

Independence Light and Power, Telecommunications

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets
Budget to Actual (Cash Basis)

December 31, 2011

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Total Revenues	\$ 11,022,295	626,288	11,648,583	11,601,521	47,062
Total Expenditures	(10,212,523)	(852,351)	(11,064,874)	(11,478,788)	413,914
Net	809,772	(226,063)	583,709	122,733	460,976
Balance, Beginning of year	11,962,675	(9,794,442)	2,168,233	2,967,283	799,050
Balance, End of year	<u>\$ 12,772,447</u>	<u>(10,020,505)</u>	<u>2,751,942</u>	<u>3,090,016</u>	<u>338,074</u>

See accompanying independent auditor's report.

Other Supplementary Information

Independence Light and Power, Telecommunications

Treasurer's Balance

December 31, 2011

	Checking and Savings Accounts	Time Deposits	Total	Maximum Authorized Deposit
Security State Bank Independence, Iowa	\$ -	532,158	532,158	6,000,000
Cash on Hand			-	
Deposits in transit			-	
Outstanding checks			-	
Balance			<u>532,158</u>	
BankIowa Independence, Iowa	2,245,724	3,600,000	5,845,724	6,000,000
Cash on Hand			800	
Deposits in transit			-	
Outstanding checks			<u>(51,502)</u>	
Balance			<u>5,795,022</u>	
Total			<u><u>\$ 6,327,180</u></u>	

See accompanying independent auditor's report.

Independence Light and Power, Telecommunication

Schedule of Operating Expenses

Years Ended December 31, 2011 and 2010

	2011	2010
Generation Expenses:		
Purchased power	\$ 5,175,095	5,123,414
Fuel oil expense	39,566	40,074
Natural gas - engines	84	116
Natural gas - boiler	22,817	25,106
Operating expenses	1,783	3,840
Generating vacation and sick leave	50,166	45,227
Supervision	101,365	98,091
Maintenance of generators and equipment	52,756	89,630
Miscellaneous generation expenses	139,230	107,025
	<u>5,582,862</u>	<u>5,532,523</u>
Distribution Expenses:		
Operation and maintenance of overhead	51,957	106,387
Operation and maintenance of underground	44,674	29,552
Operation and maintenance of transformers	2,140	352
Operation and maintenance of street lights	1,098	6,858
Operation and maintenance of security lights	2,689	1,697
Operation and maintenance of meters	11,621	13,696
Operation and maintenance of customer services	27,566	22,149
Operation and maintenance of traffic signals	495	3,837
Operation and maintenance of substation	314	717
Distribution supervision	94,380	57,013
General distribution labor	30,378	31,680
Distribution vacation and sick leave	50,848	39,312
Miscellaneous distribution expenses	53,764	85,451
	<u>371,924</u>	<u>398,701</u>
Customer Accounts Expense:		
Customer records and collections	97,096	96,607
Bad debt expense	4,798	8,978
Meter reading	22,501	22,305
	<u>124,395</u>	<u>127,890</u>

Administration and General Expenses:

Office salaries	152,581	155,340
Office vacation and sick leave	47,478	39,856
Property insurance	76,528	88,506
Outside services	44,413	208,519
Office supplies, telephone, and postage	18,215	18,268
Employer FICA	69,355	74,223
Employer IPERS	70,269	64,466
Maintenance - general	6,770	7,334
Miscellaneous expense	60,587	63,279
Uniforms	5,189	4,971
Safety expenses and equipment	12,301	11,292
Employee benefits	203,706	316,870
Energy efficiency programs	15,932	21,752
Marketing	8,078	6,034
Transportation	57,755	46,367

	<u>849,157</u>	<u>1,127,077</u>
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Cable and internet expenses

	<u>1,738,789</u>	<u>1,643,184</u>
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Depreciation and amortization expenses

	<u>934,566</u>	<u>919,754</u>
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Benefits to Community and City:

Cash donations to city	156,000	156,376
Labor benefits to city	43,438	19,653
Community benefits	258,142	161,722

	<u>457,580</u>	<u>337,751</u>
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Total Operating Expenses

	<u>\$ 10,059,273</u>	<u>10,086,880</u>
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See accompanying independent auditor's report.

Alan W. Flick, C.P.A.
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Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

We have audited the accompanying financial statements of the business type activities of Independence Light and Power, Telecommunications, Independence, Iowa, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our reports thereon dated August 28, 2012. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Independence Light and Power, Telecommunications' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independence Light and Power, Telecommunications' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independence Light and Power, Telecommunications' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Independence Light and Power, Telecommunications' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-11 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Light and Power, Telecommunications' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Independence Light and Power, Telecommunications' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utility's responses, we did not audit Independence Light and Power, Telecommunications' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of Independence Light and Power, Telecommunications and other parties to whom Independence Light and Power, Telecommunications may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Independence Light and Power, Telecommunications during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

August 28, 2012

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE: No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Independence Light and Power, Telecommunications is a small municipal utility with an office staff consisting of two billing clerks, one accounts payable clerk, one receptionist and an office manager. The billing clerks, accounts payable clerk and receptionist can receipt in cash and checks. Balancing the two cash drawers to the cash receipts software is rotated on a daily basis, depending on workload. The billing clerks prepare the deposit tickets. All cash customers are given a receipt and all others are asked if they want a receipt. A printed receipt is put in the cash drawer for all cash and checks received listing the dollar amount and becomes part of our permanent records. The office manager and billing clerks investigate any customer complaints regarding receipts. In a municipal utility, there are serious consequences for delinquent invoices, therefore, if a customer has paid their invoice and has not received credit for it they will probably file a complaint. Our software allows searches on a specific dollar amount paid and receipts can be physically looked at as they are filed by date received and batch in which they were entered. A software generated tape of the receipts is attached to the grouping.

The accounts payable clerk enters invoices and prepares checks. Invoices are approved by the general manager or assistant general manager. All checks require two signatures by either the general manager, the assistant general manager, or the office manager. The office manager reconciles the bank statement each month and prepares a report for the Board of Trustees. The Board of Trustees approves all payments. All checking account withdrawals and deposits are tied back to the accounting software.

All payroll timesheets are approved by department supervisors and is prepared by the office manager. The general manager approves timesheets for supervisors and reviews all deposit advises.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

- II-B-11 Preparation of Financial Statements - Independence Light and Power, Telecommunications does not employ an accounting staff with the technical expertise to prepare its financial statements (including footnotes disclosures) in conformity with accounting principles general accepted in the United States of America; therefore, it relies on its auditors to prepare such statements.

Response - Management feels that having the auditors draft the financial statements and notes is a tolerable situation. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

Conclusion - Response acknowledged.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

Part III: Other Findings Related to Required Statutory Reporting:

- III-A-11 Official Depositories – A resolution naming official depositories has been approved by the Utility. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2011.
- III-B-11 Certified Budget – Disbursements during the year ended December 31, 2011 did not exceed the amounts budgeted in the business type activities functions.
- III-C-11 Questionable Disbursements – We noted no questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-11 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- III-E-11 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.
- III-F-11 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- III-G-11 Board of Trustees Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-H-11 Revenue Notes – We noted no instances of noncompliance with the Electric Revenue Note provisions.
- III-I-11 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of chapter 12B and 12C of the Code of Iowa and the Utility's investment policy.
- III-J-11 Telecommunication Services – We noted no instances of noncompliance with Chapter 388.10 of the code of Iowa.

Staff

This audit was performed by:

Gina E. Trimble, CPA
Dana J. Elliott, CPA
Jeremy P. Lockard, CPA